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SUBJECT: Finance Minister Presents Budget to Parliament

1. SUMMARY: Minister of Finance Mohammad Abu Hammour presented the 2005 Budget to parliament December 22. The budget projects expenditures at USD 4.7 billion, foreign aid at USD 1.5 billion, and a deficit of USD 234 million. The budget estimates real growth next year at 5 percent and inflation at 2.5 percent. It is the first budget after the conclusion of 15 years of IMF-guided economic reforms. As of 2005, the budget will for the first time reflect oil grants at world market prices and current expenditures will reflect fuel subsidies. While the government expects a heated debate in parliament over some budget items, the budget law is expected to pass. Post's analysis of the budget will follow septel. END SUMMARY.

Budget Highlights

2. Abu-Hammour presented the 2005 Budget Draft Law to the parliament's lower house. Noting that this is the first budget after the conclusion of 15 years of IMF-guided economic reforms, he emphasized that the government is committed to continue the corrective measures started under the IMF program. Jordan's Cabinet had adopted the budget on Nov 30.

3. Main budget numbers:

--- The budget sets total revenues at JD3.06 billion (USD 4.32 billion), this is JD 331 million (USD 468 million) or 12.1 percent above the currently re-estimated 2004 actual budget.

---- Revenues include foreign grants at JD 1.06 billion (USD 1.5 billion).

---- The budget sets expenditures at JD 3.33 billion (USD 4.7 billion), which represents a 10.7 percent increase over the 2004 actual budget. Current expenditures are JD2.54 billion (USD 3.6 billion), which represents a JD235 million (USD 332 million) increase over the 2004 actual budget (10.2 percent higher).

---- Fuel subsidies amount to JD 310 million (USD 437 million) in the 2005 draft budget compared to JD 250 million (USD 353 million) in the 2004 actual budget.

---- Capital expenditures estimates are at JD785 million (USD 1.1 billion), JD 88 million (USD 124 million) or 12.6 percent higher than in 2004.

---- External debt reached JD5.28 billion by the end of October 2004 or 68.9 per cent of estimated GDP for the same year, in comparison to JD5.39 billion at the end of 2003 or 76.4 per cent of GDP.

--- Budget summary:

	JD (million)	USD
(million)		
Domestic Revenues	2,000	2,824
Taxes	1,368	1,932
Others	622	878
loan receipts	10	14
Foreign Grants	1,060	1,497
of which SETP	56	80
Total Revenues	3,060	4,322
Current Expenditures	2,545	3,594
Civil	673	951
Military	691	976
Others	1,180	1,667
of which		
fuel subsidies	310	437
pensions	414	584
interest /foreign debt	185	261

Capital Expenditures	785	1,108
of which SETP*	161	227
Total Expenditures	3,330	4,703
Deficit		
Including SETP*	270	381
Excluding SETP*	165	234

* SETP is the Socio-Economic Transformation Plan

14. The Minister highlighted the following statistics:

--- Jordan achieved annual real GDP growth of 7.4 percent in the first three quarters of the year, while inflation was at 3.3 per cent during the first 11 months of the year, amongst the lowest in the region.

---- Projected real growth rate for 2005 is 5 percent, which he noted is double the population growth rate. Projected GDP per capita is JD 1,500 (USD 2,120).

--- Foreign currency reserves now stand at JD4.8 billion, or eight months worth of imports.

--- The 2005 budget forecasts a 2.5 per cent inflation rate, 10 per cent growth in imports and exports, and a decrease in external debt by 5 percent of the GDP.

Deficit

15. The budget projects overall deficit at JD 270 million (USD \$381 million), which represents 3.3 percent of GDP. The deficit last year was JD 293 million (USD 414 million) or 3.9 per cent of GDP. When excluding the Socio-Economic Transformation Program (SETP), the deficit stands at JD 165 million (USD 234 million).

Changes in the Budget structure and items

16. As of the 2005 Budget, the government will include the SETP under the relevant ministries' capital expenditures items.

17. The Budget will no longer include an "expenditure control" item whereby the savings from under-spending on various line items were allowed to be lumped into a single item in the actual, end-of-year budget, with no transparent accounting. All expenditure projections (and their end-of-year variances) will be fully reflected in the budget.

Oil subsidies and prices

18. The budget assumes oil prices averaging USD 42 per barrel (the GOJ's estimate of the 2005 annual average international price); the 2004 budget estimated oil prices at USD 26 per barrel.

19. As of the 2005 Budget, oil grant projections will reflect world market prices. In previous years, the government factored oil prices at the concessional rates awarded to the Jordan Petroleum Refinery. Also, current expenditures projections will include fuel subsidies.

No new taxes, better collection methods

110. The 2005 Budget does not include new taxes. The Government will focus on better collection methods already started in 2004, which have proved effective. One significant feature of improved tax collection was the merger in 2004 of the Income Tax and the General Sales Tax departments.

Neutralizing the effect of currency fluctuations on debt

111. The government will soon put in place a strategy to neutralize the effects of the fluctuation of the foreign currencies on the Kingdom's external debt -- more than half of which is the pound sterling, yen and euro.

Next Step

112. Parliament referred the Budget draft law to the House Finance and Economic Committee for review. The Committee's

Chair, Hashem Dabas, stated to the local press that he will not pass the draft budget law unless the government answers the 36 recommendations the committee gave on the 2004 budget. In the budget speech, Minister Abu-Hammour stated that the government drafted the budget with these recommendations in mind.

Comment

13. Although the government may face a heated debate in parliament over some budget items (e.g. over government salaries), the budget law is expected to pass unchanged. The constitution allows parliament to either accept or reject the draft budget law, but does not allow for substantial modifications in the budget, including identifying additional revenue sources. Post will provide septel an analysis of the budget and of its political implications.
HALE